

Business Essentials for State Taxpayers (B.E.S.T.)

Operating a Business in Alabama: Business Income Filing Requirements

Rev 09-01-2021



1



B.E.S.T. Webinar Series Housekeeping Reminders



Everyone's lines are muted when entering the meeting. This is to prevent background noises from interrupting the presentation. Only the host is able to unmute someone.

Layout

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2

The information in this presentation is intended to be an overview. It is not a comprehensive explanation of all aspects of the subject matter, does not represent legal advice, and is not legally binding on the Department. Information regarding taxes and tax administration changes frequently and should always be confirmed through a tax professional.

Please refer to the Alabama Department of Revenue website at <https://revenue.alabama.gov/> for additional information.

Purpose of this Webinar:

To inform Alabama taxpayers of the requirements and guidelines for filing business income taxes in Alabama. This presentation will:

- Define business entity types
- Provide income filing requirements for each business entity type
- Discuss estimated taxes
- Review penalties and interest due

Business Entity Types



Effective January 1, 2021 and thereafter, a taxpayer can file as an Electing Pass-Through Entity.

For more information on Electing Pass-Through Entities, see

<https://revenue.alabama.gov/individual-corporate/electing-pass-through-entities/>

Business Entities Types and Tax Reporting

	Entity Taxed As	Tax Reporting	Due Dates
Sole Proprietor	<ul style="list-style-type: none"> One owner Not a separate taxable entity 	<ul style="list-style-type: none"> For an individual income is reported on the Alabama Form 40, with the required attachments. 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
Partnership	<ul style="list-style-type: none"> Two or more owners/partners Income/loss passes through to owners/partners 	<ul style="list-style-type: none"> Partnership income reported on Form 65, with the required attachments. 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
S Corporation	<ul style="list-style-type: none"> No tax at entity level <i>(see Form 20S for exceptions)</i> Income/loss passes through to owners/shareholders 	<ul style="list-style-type: none"> Income reported on Form 20S, with the required attachments. 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.
C Corporation	<ul style="list-style-type: none"> Taxed at entity level 	<ul style="list-style-type: none"> Income reported on Form 20C, with the required attachments. 	No later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.

Sole Proprietor

Sole Proprietor

- A single owner or single member LLC is a sole proprietor by default.
- A sole proprietorship is not a separate taxable entity.
- A sole proprietorship files an Alabama Form 40, with the required attachments. (See the form instructions.)
- The Alabama Income Tax Return is due no later than the corresponding Federal Income Tax Return as required to be filed, as provided under federal law.

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9

Sole Proprietor

FORM 40 2020

Alabama Individual Income Tax Return
RESIDENTS & PART-YEAR RESIDENTS

For the year Jan. 1 - Dec. 31, 2020, or other tax year: Beginning: Ending: •

Your first name: • Last name: •
 Spouse's first name: • Last name: •
 Present home address (number and street or P.O. Box number): •
 City, town or post office: • State: ZIP code: •
 Check if address is outside U.S. Foreign Country: •

Your social security number: •
 Check if primary is deceased (Primary's deceased date (mm/dd/yyyy)): •
 Spouse's social security number: •
 Check if spouse is deceased (Spouse's deceased date (mm/dd/yyyy)): •

CHECK BOX IF AMENDED RETURN • ☐

Filing Status/Exemptions: 1 • ☐ \$1,500 Single 3 • ☐ \$1,500 Married filing separate. Complete Spouse SSN •
 2 • ☐ \$3,000 Married filing joint 4 • ☐ \$3,000 Head of Family (with qualifying person). Complete Schedule HOF.

5a Alabama Income Tax Withheld (from Schedule W-2, line 18, column G) A - Alabama tax withheld 00 00
 5b Wages, salaries, tips, etc. (from Schedule W-2, line 18, column I plus J) B - Income 00 00
 6 Interest and dividend income (also attach Schedule B if over \$1,500) 00 00
 7 Other income (from page 2, Part I, line 9) 00 00
 8 Total income. Add amounts in the income column for line 5b through line 7. 00 00
 9 Total adjustments to income (from page 2, Part II, line 15) 00 00
 10 Adjusted gross income. Subtract line 9 from line 8. 00 00
 11 Check box a, if you itemize deductions, and enter amount from Schedule A, line 27. Box a or b MUST be checked

Deductions

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10

Sole Proprietor

Form 40 (2020) Page 2

PART I		1	•	00
1 Alimony received		1	•	00
2 Business income or (loss) (attach Federal Schedule C or C-EZ) (see instructions)		2	•	00
3 Gain or (loss) from sale of Real Estate, Stocks, Bonds, etc. (attach Schedule D)		3	•	00
Other Income (See page 12)	4a Total IRA distributions	4a	•	00
	4b Taxable amount (see instructions)	4b	•	00
	5a Total pensions and annuities	5a	•	00
	5b Taxable amount (see instructions)	5b	•	00
6 Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)		6	•	00
7 Farm income or (loss) (attach Federal Schedule F)		7	•	00
8 Other income (state nature and source — see instructions)		8	•	00
9 Total other income. Add lines 1 through 8. Enter here and also on page 1, line 7.		9	•	00

11

Partnership

12

Partnership

A partnership is the relationship existing between **two or more persons**, who join to carry on a trade or business.

Each person contributes money, property, labor, or skill, and expects to share in the profits and losses of the business.

Partnership

- Income/loss of the partnership is reported on Alabama Form 65, with the required attachments. (See the form instructions.)
- This informational return is due no later than the corresponding Federal Return, as required to be filed under federal law.

Types of Partnerships

There are four types of partnerships:

- General Partnership
- Limited Liability Company (LLC)
- Limited Partnership (LP)
- Limited Liability Partnership (LLP)

General Partnership

In a General Partnership, each partner has unlimited personal liability.

Limited Liability Company (LLC)

An LLC protects the owner from personal liability and all profits/losses are passed through to your personal income without facing corporate taxes.

Depending on the elections made by the LLC and the number of members, the IRS will treat an LLC as either a corporation, partnership, or as part of the LLC owner's tax return (a "disregarded entity").


Limited Partnership (LP)

An LP has one general partner with unlimited liability and all other partners have limited liability.

Limited Liability Partnership (LLP)

In an LLP, every owner has limited liability and is protected from the actions of the other partners.

Partnership

FORM 65 [Reset Form](#)  Alabama Department of Revenue CY ☐ FY ☐ SY ☐ **2020** 52/53 Week ☐

Partnership/Limited Liability Company Return of Income

Important! You Must Check Applicable Box:

- ☐ Amended Return
- ☐ Initial Return
- ☐ Final Return
- ☐ General Partnership
- ☐ Limited Partnership
- ☐ LLC/LLP
- ☐ Qualified Investment Partnership
- ☐ Public Housing Project
- ☐ Publicly Traded
- ☐ Series LLC

Filing Status: (see instructions)

- ☐ 1. Company operating only in Alabama.
- ☐ 2. Multistate Company – Apportionment (Sch. C).
- ☐ 3. Multistate Company – Separate Accounting (Prior written approval required and must be attached) or Sch. B non-business allocation only.


Federal Audit Change: ☐ Check if the company qualifies for the Alabama Enterprise Zone Credit or the Capital Credit. ☐ Number of Members During The Tax Year:

State in Which Company Was Formed: **Nature of Business:** **Date Qualified in Alabama:** **Number of Nonresident Members Included in Composite Filing:**


Caution: Include only trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

	1a	1b	1c	2	3	4	5
1. Gross receipts or sales							
2. Returns and allowances							
3. Balance: Subtract line 1b from line 1a							
4. Cost of goods sold (attach Federal Form 1125-A)							
5. Gross Profit. Subtract line 2 from line 1c							
6. Ordinary income (loss) from other partnerships, estates, and trusts (from Schedule P, line 1d)							
7. Net farm profit (loss) attach Schedule F (Federal Form 1040)							

Schedule K-1 to be filed with Form 65 for Partnerships



**SCHEDULE
K-1**
(Form 65)



[Reset Form](#)

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INCOME TAX ADMINISTRATION DIVISION

Owner's Share of
Income, Deductions, Credits, etc.

2020

SEE INSTRUCTIONS

☐ QIP


Tax year beginning _____, 2020 and ending _____, 20____

☐ Final K-1

☐ Amended K-1

PART I Information About the Partnership		PART III Partner's Share of Current Year Income, Deductions, Credits, and Other Items	
A	Partnership's Employer Identification Number	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <p style="text-align: center; font-size: 10px;">Distributive share allocated and apportioned to Alabama</p> <p style="font-size: 10px;">G Ordinary income (loss)</p> <p style="font-size: 10px;">H Net rental real estate income (loss)</p> <p style="font-size: 10px;">I Guaranteed payments</p> <p style="font-size: 10px;">J Portfolio income</p> </div> <div style="width: 45%;"> <p style="text-align: center; font-size: 10px;">Distributive share to be reported by Alabama Residents</p> <p style="font-size: 10px;">G2 Ordinary income (loss)</p> <p style="font-size: 10px;">H2 Net rental real estate income (loss)</p> <p style="font-size: 10px;">I2 Guaranteed payments</p> <p style="font-size: 10px;">J2 Portfolio income</p> </div> </div>	
B	Partnership's name, address, city, state, and zip code		
PART II Information About the Partner			
C	Partner's identifying number (Do not use TIN of a disregarded entity)		

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21

S Corporation

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22

S Corporation

An S Corporation (S Corp) passes income, losses, deductions, and credits through to their shareholders, who report the flow-through of income and losses.

This allows an S Corp to avoid double taxation on the corporate income.

S Corporation

- S Corporations are Pass-Through Entities because the income/loss passes through to the shareholders.
- The income/loss is reported on Alabama Form 20S, with the required attachments. (See the form instructions.)
- Form 20S is due no later than the corresponding federal return, as required to be filed under federal law.

C Corporation



C Corporation

A C Corporation is an entity that is separate from its owners. It can make a profit, be taxed, and can be held liable. This structure is independent of its shareholders.

C Corporation

- C Corporations are taxed at the entity level.
- Income is reported on Alabama Form 20C, with the required attachments. (See the form instructions.)
- Form 20C is due no later than the corresponding federal return as required to be filed under federal law.

C Corporation

FORM 20C   Alabama Department of Revenue **2020**

Corporation Income Tax Return

For the year January 1 – December 31, 2020, or other tax year beginning 2020, ending 2020

Check applicable box:

☐ PL 96-272 Initial return

☐ Final return

☐ Amended return

☐ Federal audit change

Filing Status: (see instructions)

☐ 1. Corporation operating only in Alabama.

☐ 2. Multistate Corporation – Apportionment (Sch. D-1).

☐ 3. Multistate Corporation – Percentage of Sales (Sch. D-2).

☐ 4. Multistate Corporation – Separate Accounting (Prior written approval required and must be attached).

☐ 5. Proforma Return – files as part of Alabama Affiliated Group.

1 FEDERAL TAXABLE INCOME (see instructions)

2 Federal Net Operating Loss (included in line 1)

3 Reconciliation adjustments (from line 26, Schedule A)

4 Federal taxable income adjusted to Alabama Basis (add lines 1, 2 and 3)

5 Net nonbusiness (income)/loss – Everywhere (from Schedule C, line 2, col. E)

6 Apportionable income (add lines 4 and 5)

7 Alabama apportionment factor (from line 27, Schedule D-1)

8 Income apportioned to Alabama (multiply line 6 by line 7)

9 Net nonbusiness income/loss – Alabama (from Schedule C, line 2, col. F)

10 Alabama income before federal income tax deduction (line 8 plus line 9)

11a Federal income tax deduction (refund) (from line 12, Schedule F)

Entity Classification Election

Entity Classification Election – Form 8832

- An entity uses Federal Form 8832 to elect how it will be classified for federal tax purposes.
- If a domestic entity election is not made, it will default to either a partnership (two or more members) or a disregarded entity separate from its owner (single owner).
- The State of Alabama will follow the federal entity classification election.
- These forms can be found on the IRS website <https://www.irs.gov/>.

Estimated Taxes

What is Estimated Tax?

Estimated tax is a quarterly payment of taxes due based on the filer's reported earned income for the period.

Estimated Taxes - Individual/Pass-Through Entities

General rule: In most cases, you must pay Alabama estimated taxes for the current year if **both** of the following apply:

1. You expect to owe at least \$500 in Alabama income tax for the current year, after subtracting withholding and credits and
2. You expect your withholding plus your credits to be less than the smaller of:
 - 90% of the tax to be shown on your current year tax return, or
 - 100% of the tax shown on your previous year's tax return

For Individual - See Form 2210AL

For Pass-Through Entity - See Form 2220AL

Estimated Taxes - Individual/Pass-Through Entities

Estimated taxes may be paid in full (by January 15th) or in equal installments on or before:

- April 15th
- June 15th
- September 15th
- January 15th

See <https://revenue.alabama.gov/individual-corporate/electing-pass-through-entities/> for Electing Pass-Through Entity guidance.

Estimated Taxes - Corporations

- A corporation that has an Alabama income tax liability in excess of \$500 must pay estimated tax.
- The required installments shall be 25% of the required annual payment.
- The required annual payment generally means:
 - The lesser of 100% of the tax shown on the return for taxable year, or
 - 100% of the tax shown on the return of the corporation for the preceding taxable year.
- Payment due dates:
 - 1st payment is due by the 15th day of the 4th month of the taxable year.
 - 2nd, 3rd, and 4th payments are due by the 15th day of the 6th, 9th, and 12th months, respectively.

See Form 2220AL - Underpayment of Estimated Taxes by Corporations.

Penalties and Interest Due

Penalties

- **Failure to Timely File Penalty**
10% of tax due or \$50; whichever is greater
- **Failure to Timely Pay Penalty**
 - 1% of tax due per month; maximum 25% (e.g., income tax returns)
 - Flat rate of 10% of tax due for monthly and quarterly returns (e.g., sales, lodgings, or rental tax returns)
- **Negligence Penalty** (*intentional disregard for rules and/or regulations*)
5% of tax due
- **Fraud Penalty** (*to purposely deceive*)
50% of tax due

Interest Due

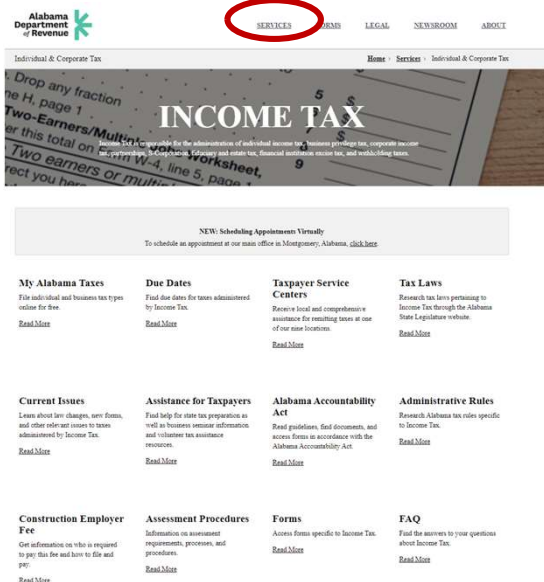
- If the tax is not timely paid, interest is also due and by law cannot be waived.
- The rate of interest changes because it is the same rate as established by the U.S. Secretary of the Treasury under the authority of 26 U.S. Code § 6621.
- Current interest rates can be viewed at:
<https://revenue.alabama.gov/assessments/quarterly-interest-rates/>

Helpful Links on ADOR's Website

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41



Go to:
revenue.alabama.gov/individual-corporate/

- Due Dates
- Tax Laws
- Forms
- Administrative Rules
- FAQ

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42

Go to:
revenue.alabama.gov

Click on “Businesses”

See links under “Income
Tax”

The screenshot shows the Alabama Department of Revenue website. The top navigation bar includes links for Individuals, Businesses (circled in red), and Professionals. Below the navigation bar is the Alabama Department of Revenue logo and a list of services: SERVICES, FORMS, LEGAL, NEWSROOM, and ABOUT. The main content area is titled "Businesses" and includes a breadcrumb trail: Home > Businesses. A paragraph states: "The quick links below have been curated specifically for **businesses** looking for information on filing taxes, obtaining licenses, registering a business, and other services provided by the Department of Revenue. The header boxes above the link lists will take you to that division's page." Below this text are three columns of links. The first column, under "COVID-19 Updates", includes links for My Alabama Taxes, Taxpayer Service Centers, After Alabama, B.E.S.T. Resources, Tax Incentives, Register as Employer, and Certificate of Compliance. The second column, under "Income Tax", includes links for Alabama Accountability Act, Due Dates, Corporate Taxes, Business Privilege Taxes, Withholding Tax, Partnerships, LLCs & S-Corps, Fiduciary & Estate Tax, Financial Institution Excise Tax, How to Close a Business, Assessment Procedures, and Construction Employer Fee. The third column, under "Sales & Use", includes links for Simplified Sellers Use Tax, ONE SPOT, Sales Tax Holidays, Tax Rates, Due Dates, Assessment Procedures, and How to Close a Business. At the bottom of the page is the Alabama Department of Revenue logo and the slogan "Be ADOR's B.E.S.T!"

43

Go to:
revenue.alabama.gov

Click on “FORMS”

Type the form name or
number in the Search bar.

The screenshot shows the Alabama Department of Revenue website, specifically the FORMS section. The top navigation bar includes links for Individuals, Businesses, and Professionals. Below the navigation bar is the Alabama Department of Revenue logo and a list of services: SERVICES, FORMS (circled in red), LEGAL, NEWSROOM, and ABOUT. The main content area is titled "Forms" and includes a breadcrumb trail: Home > Forms. A paragraph states: "Access forms, form instructions, and worksheets for each tax division below. The list is currently sorted first by division and then by category. You may **search** for a specific form by typing in the search bar, or **sort** the list by clicking on any of the column headers. You may **filter** by division, category, and year using the dropdown menus at the bottom of the forms table." Below this text is a table of forms. The table has columns for Number, Title, Division, Category, and Year. A search bar is located at the bottom right of the table. A red arrow points to the search bar. Below the table is a paragraph: "All forms will download as a PDF. Please refer to the list of mailing addresses for the appropriate forms. For income tax form orders, please use this contact form." Below this paragraph is a table of forms.

Number	Title	Division	Category	Year
2020 Form 65 Instructions	2020 Partnership Limited Liability Company Return of Income	Income Tax	S-Corp and Partnership LLC	2020
2020 Schedule K-1 (Form 65) Instructions	Owner's Share of Income, Deductions, Credits, etc.	Income Tax	S-Corp and Partnership LLC	2020
MV-40-12-265-1	Application for Replacement Credentials	Motor Vehicle	Registration (MV)	2020
2019 Form 65 Instructions	2019 Partnership Limited Liability Company Return of Income	Income Tax	S-Corp and Partnership LLC	2019
2019 Schedule K-1 (Form 65) Instructions	Owner's Share of Income, Deductions, Credits, etc.	Income Tax	S-Corp and Partnership LLC	2019
Federal Income Tax Deduction Worksheet IRC Section 965	Federal Income Tax Deduction Worksheet IRC Section 965	Income Tax	Corporate Tax	2018
2018 Form 65 Instructions	2018 Partnership Limited Liability Company Return of Income	Income Tax	S-Corp and Partnership LLC	2018

44

Taxpayer Service Centers

The Alabama Department of Revenue has nine Taxpayer Service Centers located throughout the State to assist you. Contact information for the Service Centers can be found at:

<https://revenue.alabama.gov/taxpayer-service-centers/>

Thank you for being ADOR's B.E.S.T.!

B.E.S.T. Webinar presentations can be found at

<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/b-e-s-t-webinar-schedule/>

Also available are B.E.S.T. Learning Modules at

<https://revenue.alabama.gov/taxpayer-advocacy/b-e-s-t-seminars/watch-modules-online/>

Questions?

Please use the Q&A feature in Webex to ask the presenter questions.